

VZCZCXRO2558
RR RUEHDBU RUEHLN RUEHVK RUEHYG
DE RUEHKB #1348/01 3130729
ZNR UUUUU ZZH
R 090729Z NOV 07
FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC 4212
INFO RUCNCIS/CIS COLLECTIVE
RUEHAK/AMEMBASSY ANKARA 2447
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEHBS/USEU BRUSSELS

UNCLAS SECTION 01 OF 02 BAKU 001348

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SUBJECT: AZERBAIJAN PASSES NEW INSURANCE LAW

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11. (U) On October 9, Azerbaijan's parliament passed an updated Law on Insurance Activity that the Ministry of Finance indicates is a first step to raising Azerbaijan's domestic insurance up to the International Association of Insurance Supervisors' (IAIS) standards.

The World Bank and other international donors assisted the GOAJ in drafting the new insurance law. Azerbaijan's insurance services sector has developed less in the past 10 years compared to other economic sectors (e.g. oil, banking).

12. (U) According to insurance industry contacts, the overall insurance market volume in 2006 grew at 7 percent to USD 100 million, equaling only 0.5 percent of GDP. According to official statistics, the paid-in capital of insurers reached USD 66.7 million (USD 5.3 million or 7.9 percent of which is foreign investment), and there are 83 insurance shareholders and 29 insurance companies operating in Azerbaijan. Total amount of premiums was USD 48 million in 2002, USD 75 million in 2004 and USD 101 million in 2006. Voluntary insurance services made 92 percent of the premiums, while 8 percent was generated by the compulsory insurance sector. The total payment for insurance claims was USD 48 million in 2006, which accounted for 50 percent of the premiums.

12. (U) According to local insurance business contacts (AIG Insurance, Ateshgah, MBask), the new draft law brings the following key changes: it alleviates the 49 percent participation ceiling for foreign capital, which is a positive change. At the same time, however, it requires all the insuring companies to reform into the joint stock open societies, which requires the insurers to start a company reorganization process. The law empowers the state regulatory body with more control authority, but only allows ranking insurers be co-founders of an insurance company in Azerbaijan. Given that this creates complications for participation of international Financial Institutions (IFIs) at the local insurance sector (EBRD is a stakeholder of the local MBask insurance company), the Azerbaijan Insurers' Association has applied to the GOAJ with a request to change the new law and allow participation of the IFIs at the insurance companies.

13. (U) In details, through its 15 chapters, the law 1) clarifies insurance terminology, alleviates misinterpretation and clearly determines the insurance secrecy aspect; 2) requires all the insurers to operate as joint stock companies; includes an article about the prevention of money laundering and financing of terrorism; gives detailed classification of life and non-life insurance classes; sets requirement that life insurance and non-life insurance have to be provided by different insurance companies; 3) sets clear requirements for founders and stakeholders of an insurance company,

both - individuals and legal entities; sets requirement that the limit of participation of the foreign capital in the insurance system of the Azerbaijan Republic is determined by the State Insurance Supervisor; 4) requires all insurers establishing the same administrative (management) bodies for the sake of consistency; 5) provides rules and procedures of issuance and calling back of the insurer's license; 6) requires an insurer setting and following clearly identified investment policy directions; 7) determines categories and volume of deals (business contracts) allowed to sign with related parties of the insurers; 8); sets requirements about transfer insurance portfolio from one insurer to another insurer and about insurance merger; 9) describes requirements of how to hire and dismiss an independent auditor; 10) sets rules of providing financial stability of the charter capital through initial cash installments with further provision of the difference between insurer's assets and liabilities; also sets classification of insurance funds; 11) introduces a new regulatory element through licensing an agent's functions as professional activity; 12) expands duties and authorities of the state insurance regulatory body ;13) provides rules for preservation of legal rights of those insured while shutting down an insurance company as a legal entity; 14) final wrap up provisions and 15) transition provisions (from old requirements to new requirements).

14. (SBU) Government officials and local businessmen are hopeful that the new law will be the impetus to greater development of the insurance sector. Foreign access to the domestic insurance market, however, remains a large problem, despite GOAJ's efforts to liberalize the sector. According to the Ministry of Finance, Azerbaijan "will partly liberalize access to the local insurance market, but will not completely open for foreign capital," adding that there will be no branches of foreign insurance companies operating in Azerbaijan.

BAKU 00001348 002 OF 002

15. (SBU) Private sector and economic experts believe that there is greater potential for insurance sector development but growth has lagged behind other non-energy sectors. The head of the Azerbaijan Insurers Association says that local insurance companies hope to see more progress with the new law, including better protection mechanisms for companies and modernization of insurance regulations.

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